MARYLAND HEALTH CARE COMMISSION

Determining the Threshold for Required Approval of Changes in Certificate of Need Approved Capital Cost

Maryland Health Care Commission ('the Commission") regulations describe changes in capital projects which have received Certificate of Need ("CON") approval which require Commission approval. Among these changes are certain increases in the capital cost of approved projects. COMAR 10.24.01.17B (2), effective April 11, 2005, states that Commission approval is required "*before incurring capital cost increases that exceed the approved capital cost inflated by an amount determined by applying the Building Cost Index in Health-Care Cost Review from the application submission date to the date of the filing of a request for approval of a project change."*

Thus, persons with a CON are required to obtain approval from the Commission for increases in the capital cost of CON-approved projects that exceed a specific threshold. Under the above-referenced regulation, that threshold is now determined through use of a specific inflation index, published on a quarterly basis by Global Insight in *Health-Care Cost Review* as part of its Health Care Costs Individual Price Indexes. The Building Cost Index (BCI) that will be used by MHCC and which should be used by applicants evaluating the threshold requiring approval for their capital cost increases is the most recently published "HCFA Old 1997-Based PPS Hospital IPI".[1] The allowable inflation increase in approved capital cost, i.e., the cost increase that does not require

[1] Prior to the First Quarter 2008 Edition of *Health Care Cost Review*, MHCC used the CIS Proxy for the ENR Building Cost Index. This index is no longer published in *Health Care Cost Review*, beginning with the First Quarter 2008 Edition.

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Commission approval unless exceeded, can be determined through use of the "%MOVAVG" statistic for this index. Following are two examples:

EXAMPLE 1: Calculating Inflation for a Period Including Full Years

For a project with:

1) A current capital cost of $10,000,000, as of the date of application submission (exclusive of any allowance for inflation in the final capital cost of the project);
2) An application submission date of May 1, 2005; and
3) A cost modification date of May 1, 2007 (2 years).

STEP 1 – Calculate Inflation Factor for the First Year

A) Find the correct inflation index percentage for the first year, 2006, by going to the most recent "Table 5, Individual Price and Wage Indexes: National Forecasts" in *Health-Care Cost Review*, "Building Cost Indexes." (Use the "HCFA Old 1997-Based PPS Hospital IPI" and the line for "%MOVAVG." The correct inflation index percentage is found on this line under the column labeled "2006:2" (Year 2006, Second Quarter). The index percentage is 1. Calculate the inflation factor for the first year by converting the index percentage to a decimal and adding 1.0. [.01+ 1.0 = 1.01]

STEP 2 – Calculate Inflation Factor for the Second Year

A) Find the correct inflation index percentage for the second year, 2007, by going to "Table 5, Individual Price and Wage Indexes: National Forecasts" in *Health-Care Cost Review*, "Building Cost Indexes." Use the "HCFA Old 1997-Based PPS Hospital IPI" and the line for "%MOVAVG." The correct

inflation index percentage is found on this line under the column labeled "2007.02" (Year 2007, Second Quarter). The index percentage is 1.2

B) Calculate the inflation factor for the second year by converting the index percentage to a decimal and adding 1.0. [.012 + 1.0] = 1.012]

STEP 3 – Calculate Inflation Factor for the Full Two Year Period

Multiply the inflation factor for the first year by the inflation factor for the second year.

[1.01 X 1.012] = 1.022]

STEP 4 – Calculate the Allowable Increased Capital Cost (i.e., the Project Cost which will not require Commission approval unless exceeded)

Multiply the inflation factor for the full two year period by the current capital cost of the project, exclusive of any inflation allowance, as of the date of application submission.

[1.022 X $10,000,000 = $10,220,000]

EXAMPLE 2: Calculating Inflation for a Period Including Part of a Full Year

For a project with:

1) A current capital cost of $10,000,000, as of the date of application submission (exclusive of any allowance for inflation in final capital cost of the project);

2) An application submission date of May 1, 2005; and

3) A cost modification date of September 1, 2007 (2 years, 4 months)

STEP 1 – Calculate Inflation Factor for the First Year

A) Find the correct inflation index percentage for the first year, 2006, by going to the most recent "Table 5, Individual Price and Wage Indexes: National Forecasts" in *Health-Care Cost Review*, "Building Cost Indexes." Use the "HCFA Old 1997-Based PPS Hospital IPI" and the line for "%MOVAVG." The correct inflation index percentage is found on this line under the column labeled "2006:02" (Year 2006, Second Quarter). The index percentage is 1.

B) Calculate the inflation factor for the first year by converting the index percentage to a decimal and adding 1.0. [.01 + 1.0 = 1.01]

STEP 2 – Calculate Inflation Factor for the Second Year

A) Find the correct inflation index percentage for the second year, 2007, by going to "Table 5, Individual Price and Wage Indexes: National Forecasts" in *Health-Care Cost Review*, "Building Cost Indexes." Use the "HCFA Old 1997-Based PPS Hospital IPI" and the line for "%MOVAVG." The correct inflation index percentage is found on this line under the column labeled "2007:02" (Year 2007, Second Quarter). The index percentage is 1.2.

B) Calculate the inflation factor for the second year by converting the index percentage to a decimal and adding 1.0. [.012 + 1.0 = 1.012]

STEP 3 – Calculate Inflation Factor for the Remaining Half Year

A) Find the correct inflation indexes for the remaining four months, June, 2007-September, 2007, by going to "Table 5, Individual Price and Wage Indexes: National Forecasts" in *Health-Care Cost Review*, "Building Cost Indexes." Use the "HCFA Old 1997-Based PPS Hospital IPI" and use the "Vintage Weighted" line. The inflation index found on this line for the beginning

quarter of the four-month period is under the column labeled “2007:02” (Year 2007, Second Quarter) and is 1.094. Next, the inflation index for the ending quarter of the four-month period is found under the column labeled “2007:03” (Year 2007, Third Quarter) and is 1.101

B) Calculate the inflation factor for the remaining four month period by dividing the “2007.3” index by the “2007.2” index. [1.101 /1.094 = 1.006]

STEP 4 – Calculate Inflation Factor for the Twenty-Eight Month Period

Multiply the inflation factor for the first year by the inflation factor for the second year by the inflation factor for the remaining partial year.

[1.01 X 1.012 X 1.006 = 1.028]

STEP 5 – Calculate the Allowable Increased Capital Cost (i.e., the Project Cost which will not require Commission approval unless exceeded)

Multiply the inflation factor for the twenty-eight month period (2 years, four months) by the current capital cost of the project, exclusive of any inflation allowance, as of the date of application submission.

[1.028 X $10,000,000 = $10,280,000]

The publication containing this index, *Health-Care Cost Review*, is issued on a quarterly basis and can be purchased from Global Insight, 800-933-3374 or 781-301-9200. [support@globalinsight.com] The Maryland Health Care Commission will furnish the most recent quarterly published index statistics on its website, http://mhcc.maryland.gov.

The “Building Cost Indexes”, as reported in the current issue of *Health-Care Cost Review, Fourth-Quarter 2008,* published by Global Insight, are as follows:

Year:Quarter	“HCFA Old 1997-Based PPS Hospital IPI” Vintage Weighted	%MOVAVG
2005:2	1.068	.7
2005:3	1.070	.8
2005:4	1.074	.8
2006:1	1.074	.9
2006:2	1.080	1.0
2006:3	1.083	1.0
2006:4	1.087	1.1
2007:1	1.088	1.2
2007: 2	1.094	1.2
2007:3	1.098	1.3
2007.4	1.101	1.3
2008:1	1.105	1.4
2008:2	1.111	1.5
2008:3	1.116	1.5
2008:4	1.122	1.6
2009:1	1.124	1.7
2009:2	1.129	1.7
2009:3	1.134	1.7
2009:4	1.139	1.6

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2010:1	1.142	1.6
2010:2	1.146	1.6
2010:3	1.150	1.5
2010:4	1.156	1.5
2011:1	1.160	1.5
2011:2	1.165	1.5

For further information about use of this inflation adjustment statistic, contact Nadine Connor, Fiscal Administrator at MHCC, (410)764-3285.

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